

USAID/BANGLADESH

STRATEGY FOR FY
2000-2010

A FOCUS ON
SURVIVAL AND THE
GLOBAL ECONOMY

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USAID/BANGLADESH STRATEGY DOCUMENT, FY 2000-2010

This document sets out an analysis of where Bangladesh is now, our proposed strategy and how the Mission's six Strategic Objectives support that strategy, and what may lie ahead for USAID/Bangladesh. It also lays out the strong interrelationships between the six SOs, and their fit within the milieu of other donor, government, and private sector activities. The strategy for USAID/Bangladesh is intended to cover the period 2000-2010. We have chosen this ten-year period, consistent with ADS guidance, to provide a context and framework for our ongoing program, and to highlight the national, regional and international challenges that this and the next generation of programs should address.

PART I: BANGLADESH AT THE DAWN OF THE MILLENIUM

A. GOVERNMENT AND POLITICS.

A.1 How far has Bangladesh come?

Bangladesh declared its independence from Pakistan on March 26, 1971 following the overturn of a stunning victory by the Awami League in Pakistan's national elections. East Pakistan's preeminent political leader, Sheikh Mujibur Rahman, headed the Awami League, and West Pakistani politicians were not prepared to have the center of power shift east. War soon broke out on the new Bangladesh soil. In less than nine months, somewhere between 1 to 3 million Bangladeshis were killed during the bloody siege by the Pakistan army. Bangladesh, with help from India, finally achieved victory when the Pakistan army surrendered on December 16, 1971.

The first years for Bangladesh were extremely tough. While trying to establish its own government and institutions for the first time in history, Bangladesh faced floods, cyclones and famines of major proportion. Sheikh Mujib, who had been a brilliant opposition leader, was not so successful in administering a nation. He tried to impose single party rule, and the opposition was stifled. By 1975, national discontent ran high, culminating in the violent killing of Sheikh Mujib and the overthrow of the Awami League government by a dissident army faction. A series of military rulers and coups ended only in 1991 with the return of a democratically elected government.

There has been notable progress since 1991 in institutionalizing important elements of a democratic system. The courts are largely independent at the higher levels, and the printed press is vibrant. There is a system of creating a caretaker government for the three months preceding national elections to prevent widespread abuses by the party in power. Turnouts for national elections are high. Civil society, including the large NGO community, is permitted broad latitude in conducting its business; and there is considerable freedom of speech. The people as a whole spurn military rule, and have a deep desire to see more democratic rule and more effective government.

Political strife between the two largest parties – the Awami League and the Bangladesh National Party (BNP) – seriously complicates the growth of stable and elective government in Bangladesh. The two parties control, with their coalition partners, approximately equal camps of voters. They largely represent deeply rooted historical differences and personal alliances rather than policy differences. Political tactics remain extremely confrontational. Countrywide strikes, marches,

and parliamentary walkouts overshadow attempts to move a national agenda forward. Universities, unions, businesses, and many other parts of society are politicized.

Parliament has yet to perform as a real forum for substantive debate on legislation, policy or government performance. The dictates on legislation by the Prime Minister and cabinet generally are not opposed. Many MPs are rural elite who are more accountable to their party than their constituency. Partisan politics in Parliament dominate all dialogue, and threats of disruption are common. Yet parliament is an institution of some promise and prestige. The committee system is new but improving. While the BNP has not sat in any session for the past several months, and the leader of the opposition rarely makes an appearance, standing committees continue to have bipartisan meetings.

In its early years the government was most fortunate to inherit a top quality civil service trained at outstanding schools in England, India, and East and West Pakistan, a product of the old British raj. Those remaining stalwarts of the civil service are a dying breed. The civil service has lost its glory, is grossly under-funded for operating and capital expenses, and fails to recruit the top talent available in Bangladesh. While there are still many committed civil servants and leaders in government, the enthusiasm and sense of public duty of the early days long ago gave way to inaction, risk aversion, red tape and corruption.

Government in Bangladesh is characterized by a centralized bureaucracy and weak elected bodies. The civil service administers all levels of government down to the thana, the equivalent of a county. Most government resources flow to local departments through their respective ministries, making them accountable to the center rather than the local communities. Within the thanas, the Union Parishads, or councils, have been elected bodies for over 100 years.

Although the Union Councils do not control many resources, there is considerable potential to expand their role, especially since both parties agree on the importance of the Union Parishads. Legislation to introduce elected local government at the next higher level, the thana, has been passed by the current government. The thana executive officer (TNO), who is appointed, wields tremendous power over all aspects of rural life. Municipalities and city corporations are headed by elected mayors and councils, though central government ministries retain considerable control. The political parties, to no one's surprise, try to establish their control over the civil service, particularly at the lower levels.

While it is easy to be pessimistic about democracy and governance in Bangladesh, it must be remembered that Bangladesh never existed as a distinct entity until 1971, and that democratically elected government only came into being nine years ago. Given the passionate commitment to democracy of most Bangladeshis, and their innate notion of social equality and justice, there is reason for hope that the long-term future of democracy in Bangladesh is promising.

A.2 What role has USAID played?

Over the years, USAID has supported various activities related to democracy and human rights. However, a formal democracy program began only in 1995 with the introduction of two new strategic objectives – Enhanced Participation in Local Decision-making, and More Accessible and Equitable Justice, Especially for Women. These were merged into one SO in 1997 at the request of AID/W. The Mission is now seeking approval of a new Democracy SO, Strengthened Institutions of Democracy, which will supersede the existing SO.

Despite the short life of our DG program, we can note some major accomplishments. USAID contributions to national elections in 1991 and 1996, and its support for the development of the Fair Election Monitoring Alliance (FEMA), have enhanced the credibility of the national election systems and awareness of the role of domestic monitoring. Our inputs and support for local NGOs working with local government policies and practices set the stage for the election of 14,000 women as Union Council representatives in 1997 local elections. Many of these representatives have since received training under USAID programs.

Women's rights have been accorded a much higher priority thanks to USAID initiatives to strengthen alternative dispute resolution councils in villages, independent labor unions in the garment industry, and NGOs which tackle domestic violence, child labor, and trafficking of women and children. Most notably, USAID, through its highly visible Democracy Partnership with The Asia Foundation and many local NGOs, helped pioneer the concept of democracy advocacy among Bangladesh NGOs. Whereas in 1995 ours was the only donor program to have a democracy promotion objective, we are now one of several. This broadened donor support, spurred to a considerable extent by USAID, has helped create and strengthen over 120 NGOs and community-based organizations that have democracy promotion as a core focus.

A.3 Key Institutions

The following are some of the prominent and effective local institutions in the democracy and human rights sector. One asterisk notes institutions which have received significant USAID support. Two asterisks notes institutions largely established and developed through USAID leadership and funding.

- Bangladesh National Women Lawyers Association*
- Banchte Sheka*
- Bangladesh Supreme Court
- Ain O Shalish Kendra
- FEMA (Fair Election Monitoring Alliance)**
- Transparency International-Bangladesh*
- Bangladesh Legal Aid and Services Trust (BLAST)*
- Against Trafficking and Sexual Exploitation of Children (ATSEC)*
- Uttaran (local government development)*
- CARE/Bangladesh*
- Bangladesh Society for Enforcement of Human Rights (BSEHR)

A.4 Lessons learned

- We have to work closely with STATE and the Embassy for funding, political interface, and coordination among various USG agencies. Although our democracy budget is modest, combined USG resources can be more substantial.
- We should not spread ourselves too thin amongst topics and NGOs that we support. Our program must maintain focus.
- It is challenging to link the many local human rights programs into national level democratic change.
- Our DG horizon must be long term, and we should not become obsessed with indicators showing short-term success. Success in democracy comes in uneven and unpredictable lumps, which makes the present performance rating system less useful in this sector.

- The US has a major competitive advantage in providing DG assistance, given both our experience and commitment to human rights and the promotion of democratic values.
- Transparency and rule of law are necessary for success in the global economy.
- Progress in all other sectors in Bangladesh is threatened if democracy does not continue to develop and gain strength.

A.5 Major trends

In the midst of the prevailing negative political atmosphere, it is difficult to see positive trends. Short term change in the abrasive and intolerant relationships between the political parties that has immobilized national political debate seems unlikely, even if a change in government occurs in the next election. The major parties appear locked in their battle for power with no attention to major issues that concern the public. Both government and opposition seem oblivious to the growing public dissatisfaction with the continuing strife, corruption, and ineffectiveness of politics and government. Government uses the police power against its political opponents, and though it proclaims the language of human rights and rule of law, serious human rights incidents have occurred. Given several bye-elections where governmental power was abused and subtle threats were made against domestic election observers, there appear to be risks that the free and fair election norms are not yet institutionalized. Government has passed controversial and fundamental legislation without debate or building a consensus, using its slim parliamentary majority.

A major change seems likely only if the people of Bangladesh organize in a way to effectively demand reforms. Fortunately, the public demand for effective government is not likely to translate into general support for a military takeover. Civil society has recently been increasingly vocal and organized on human rights violations and against both government and opposition behavior. Civil society (at least a coalition of elites) may play a major role in building a consensus defining how society expects government and opposition parties to compete with each other, and how parliament should function. Over time, it may also insist on a consensus on such basic structural issues as the form of local government, freedom of electronic media from government control, and even the independence of the police and judiciary at lower levels from administrative control. Expatriate Bangladeshis in the U.S. and elsewhere are increasingly organizing to bring non-partisan pressure for some basic changes.

A.6 Regional and international context

The increasingly close relationship between Bangladesh and the US helps to highlight the disparity in rule of law, human rights and democracy between the two countries. With a large and vocal Bangladeshi-American community, and the easily accessible international media, democratic values are increasingly known in Bangladesh. Regionally, India's progress in creating a viable and decentralized democratic system is very visible in Bangladesh, as is the poor example set in Pakistan with its recent return to military rule. Efforts by the donor community as a whole in Bangladesh to stress human rights and democracy are increasingly coordinated and high profile. Yet reforms will not be initiated as a result of external pressure, but rather as a result of internal demand. In fact, too much external pressure will likely spur a curtailment of freedoms, such as restrictions on NGOs and the press.

Political developments in Bangladesh will also impact the external environment. Northeast India, Bangladesh and Nepal represent a large portion of the hard core poverty in South Asia. With Maoist rebels gaining strength in Nepal, insurgencies still bubbling in the northeastern states of India, and the Communist Party in West Bengal still strong, a major political crisis or failure in

Bangladesh could add greatly to regional instability. India also fears greatly the possibility of a failed state on its northeast border and the implications of possible mass migrations. Bangladesh still shares ethnic linkages with the Indian state of West Bengal that, despite religious differences, are as strong as the national linkages between West Bengal and the rest of India.

In spite of its shortcomings, Bangladesh is one of the most democratic states within the Muslim world, and a leading voice among the least developed countries. It has also taken on an increasingly active role in the international community, such as Peacekeeping Operations, and recently achieved a non-permanent position on the UN Security Council. Given the paramount importance of democracy for the advancement of LDCs and poorer Islamic states, a failure of democracy in Bangladesh would be a major international setback.

B. SOCIAL SERVICES

B.1 How far has Bangladesh come?

Since its independence, Bangladesh has experienced significant changes in population size and growth. In 1971, the population was 73 million and fertility was 6.4 births per woman, resulting in a population growth rate of 3.0% per year. The impressive success of Bangladesh's family planning program has reduced fertility to 3.3 births per woman and has slowed population growth to 1.6% per year.

Significant gains have also been made in reducing mortality. Life expectancy at birth increased from 44 years in 1970 to over 58 years today. Infant and under-five mortality have been halved over the last two decades. While this decline is encouraging, infant and under-five mortality remains high at 82 and 116 per 1000 live births, respectively. Much of the reduction in mortality among children is due to the success of immunization programs and the increasing use of ORT for diarrhea. Full immunization coverage among children increased from near zero in the mid-eighties to about 54% in the mid-nineties. However, immunization coverage has leveled off in recent years.

Although family planning has been an important means of reducing maternal-mortality, the very limited availability and low use of other maternal health services contribute to unmeasured but undoubtedly high maternal mortality. Untrained persons still deliver about 85% of the births, and more than 70% of pregnancies receive no antenatal care.

In addition, malnutrition remains a problem among mothers and children. About 55% of children are stunted, an indicator of chronic malnutrition and the low level of overall economic and social development, and over half of women of reproductive age are malnourished. Mothers and children suffer from inadequate intake of vitamin-A and iron, although vitamin -A deficiency among children has decreased markedly with widespread capsule distribution. While the percentage of stunted children has decreased by about 1% per year over the past decade, in line with improved socio-economic development, wasting (acute malnutrition) has been constant at about 15%, indicating continuing problems with seasonal food shortages, poor child feeding practices and access to quality health care.

The achievements of Bangladesh's family planning program are largely attributable to a service-delivery strategy that provided services at clients' doorsteps, since the movement of women outside their homes was restricted. This model was also adopted by the country's less developed health services. However, in recent years, growing demand, limited resources, increased women's mobility, and the need to broaden the range of services to include long-term, clinical

methods, required a major change in this strategy. Current GOB policy is to integrate health and family planning services - previously provided through separate programs, staff and infrastructures - into an Essential Services Package (ESP). All services in the package (family planning, maternal and child health, communicable-disease control, limited curative care) will be provided by the same health workers who will gradually be pulled into a greatly expanded number of “community clinics”. Progress in making these transitions has been slow, and satisfactory completion of the process will take time.

Primary education in Bangladesh is experiencing a major jump forward, with net enrollment rates now at 80% with gender equity. This is up over 20% since 1990, and the GOB can take considerable credit for investing in primary education and funding a major girls’ scholarship program to boost girls’ enrollment. Secondary school net enrollment is about 22%, with girls’ enrollment lagging considerably behind boys’ enrollment. The quality of public education is poor, as indicated by the literacy rate of 39%. Private schools and non formal education programs run by NGOs at the primary school level exhibit much better standards of quality, and it is hoped that this will begin to impact the quality of public institutions.

The good news is that Bangladeshis place a very high value on education, and are willing to pay even in the villages for their children to go to school. On the other hand, the GOB administrative structure is most overbearing and centralized, leading to great waste and lack of initiative at all levels. The near total lack of rapport between the donor community and the GOB officials in this sector is in great contrast to the outstanding working relationship of the GOB and donors in the health sector. The politicization of the major universities in the country has also been damaging, with Dhaka University in particular suffering greatly from campus violence and political intimidation that affects all students and faculty. Private universities are beginning to grow, and may hold promise for the future.

B.2 What role has USAID played?

USAID has been a key supporter of the health and family planning programs in Bangladesh since 1972, providing over \$650 million in DA funding in this sector. Most of this funding went to the family planning program, which dominated the first two decades of USAID’s PHN activities. However, consistent with GOB policy as described above, USAID’s emphasis since 1997 has been on the provision of integrated health and family planning services via the Essential Services Package. USAID supports 45 indigenous NGOs that provide the ESP through fixed and satellite clinics serving about 17% of the population.

USAID support for the Social Marketing Company has helped it become one of the premier social marketing institutions in the world. SMC supplies temporary contraceptives and oral rehydration salts (ORS) nationwide. USAID also supports improved program performance in the government sector, through operations research and technical assistance in family planning logistics, development of an integrated management information system, and selected child-health initiatives, including immunization, vitamin-A, and polio eradication. In recent years, USAID’s funding has come from both the Child Survival and DA-POP accounts, reflecting this more balanced approach to sector programming.

Aside from vitamin-A and a national nutrition surveillance program to assess the effects of our vitamin-A and food security activities, USAID has not been involved in nutrition under the PHN programs. Recent food-based nutrition programs under food security have focused on home vegetable gardening and possible food fortification. The World Bank is about to initiate a ten-year National Nutrition Program, which will be the hallmark effort in nutrition.

In education, USAID has not been an active donor for the formal system, and can only take marginal credit for the recent advances in enrollment and literacy. In the 1990s approximately \$12 million has been allocated to non-formal education from food assistance, and Title II food has been consistently targeting school feeding. USAID has consistently supported training in various technical fields, and was the primary donor responsible for institutions such as the Bangladesh Agriculture University and the Rural Electrification training system. Our support throughout the years to NGOs such as BRAC has indirectly allowed these organizations to flourish and expand into education.

B.3 Key Institutions

The following are some of the prominent and effective institutions in PHN and education. One asterisk notes institutions which have received significant USAID support. Two asterisks notes institutions largely established and developed through USAID leadership and funding.

- International Center for Diarrheal Disease Research, Bangladesh (ICDDR,B)**
- Social Marketing Company**
- Concerned Women for Family Development**
- Population Services and Training Center**
- Bangladesh Center for Communication Programs**
- Palli Shishu Foundation**
- Sopiret**
- BRAC*
- Dhaka University
- Bangladesh Agriculture University**

B.4 Lessons learned

- Increasing utilization of health and family planning services in a cost effective manner requires an integrated, client-focussed approach to service delivery
- Clients prefer one-stop shopping, where they have access to family planning and maternal and child health services at one site
- Improving quality of services is essential for improving program performance
- Poor people are willing to pay for quality health and education services
- Effective data and performance monitoring systems are needed to evaluate and improve sector performance
- Education has been grossly underfunded and underappreciated by USAID in Bangladesh.
- Girls' education, in particular, has proven to be an outstanding development investment
- Nutrition in Bangladesh is a complex issue requiring a multi-sectoral approach.

B.5 Major trends

The integration of health and family planning services and programs, the emphasis on the ESP, and the gradual shift away from doorstep service delivery to a facility-based approach are major changes which are likely to preoccupy policy makers, planners and implementers for the next several years. In addition, and in keeping with current policy, the GOB and donors should encourage increased privatization of the sector, a priority that has not received adequate attention so far. Health-care financing can also be expected to assume a higher profile in light of growing concerns about long-term sustainability.

Through its National Integrated Population and Health Program (NIPHP), USAID has been perhaps the leader in implementing many of these reforms. Since late 1997, USAID-funded NGOs have withdrawn doorstep services and are providing essential services at fixed facilities, at satellite clinics, and, in many rural areas, through depot-holders (former door-to-door workers who now largely stay at home and have clients come to them). All our NGOs charge fees for services, with exemptions for those unable to pay. Service statistics show that after an initial stagnation in performance, there has been a steady increase in clients seeking integrated services. The experience of these NGOs should provide important guidance to public sector reform.

GOB commitment to education seems to be real, and donor interest continues to expand. The real question is whether the GOB is prepared to undertake a major reform of its centralized bureaucracy, a precondition to improving the quality of education at all levels. The donors are negotiating as a group to establish a sector-wide education program with the GOB. If this succeeds, it will be a major breakthrough. Otherwise the trend toward private sector schooling will have to take up the slack. Hopefully the donors will consider an approach which fosters a combination of public and private education development.

B.6 Regional and international context

Regional health and population considerations are important between Bangladesh and India. Perhaps the foremost example is in polio eradication, where the discovery of cases in border areas needs to be quickly communicated to the other side. A USAID-financed NGO consortium will concentrate on eradication on such areas. Other infectious diseases, like TB and AIDS, also cross borders easily. A USAID-financed program with ICDDR,B will adapt India's greater experience in some aspects of TB control in Bangladesh. Experience in working with sex workers in Calcutta is likely to influence USAID's emerging HIV-prevention efforts.

On an international level, the success of Bangladesh on many PH fronts continues to provide invaluable lessons and success stories that can be replicated elsewhere. The ICDDR,B labs now represent one of the most outstanding facilities for maternal and child survival research in the world, and will be increasingly in the international spotlight.

On the education front, Bangladesh cannot possibly consider a future in the global economy if it does not rapidly improve its education system. It is perhaps the single most important challenge facing Bangladesh over the next ten years. We believe the U.S. education system, especially the openness of our teaching style which is broadly reflected in the Bangladesh NGO-run schools, offers special promise for education in Bangladesh. The impact of continued failure of the education system in Bangladesh to improve its quality of instruction will be the prolonging of dependence on donor assistance in all fields.

C. ECONOMIC DEVELOPMENT

C.1 How far has Bangladesh come?

Bangladesh has reduced its rate of poverty from approximately 80% in the early 1970s to below 40% today. (World Bank estimates poverty at 35%). This has been the result of investments and programs in various sectors. Major accomplishments include a substantial increase in rice and more recently wheat production; microcredit coverage from a wide range of government and non-government institutions and programs; expansion of the rural road network; the rapid growth of the ready made garment industry; and the steady growth of the informal sector. Although the per

capita income level is only about \$380 (per World Bank formula), the desperation that characterized this country in the early years of its independence is gone.

What's largely missing from the list of accomplishments is the formal economy. In Bangladesh today, the rural areas appear relatively prosperous, but the urban areas are struggling under the demand for jobs and services from those being pushed off the land. Increasingly the rural poor are forced to squat on precarious flood lands, leave for the city slums, or scavenge for a living. With job growth in all but the garment sector being fairly stagnant, most urban job seekers end up in the low wage informal sector, pedaling rickshaws or the like.

The causes of stagnation in the formal economy are no secret. Bangladesh, which came into existence as a relatively prosperous region, immediately undertook a massive nationalization of assets. Years of debate and lip service to privatization have yet to undo the major structural distortions. The largely state-owned banking system is saddled with a huge non-performing loan portfolio and is out of touch with the new world of banking. In many sectors, well-placed state institutions monopolize business, and in other sectors, private firms operate as if they were state-owned, taking political direction and state funding in return for patronage.

Development of the country's infrastructure is also not keeping pace with demand. The rural road network connects to an improved highway system, but the road system is still woefully inadequate. There are 59 km of roads per 1 million people in Bangladesh, compared to 893 km per million in India. The railroads are reliable but coverage is limited and the system is badly in need of upgrading. The Chittagong Port is one of the most inefficient ports in the world, and investors ready to help have repeatedly been spurned by the GOB in fear of the powerful unions at the port.

There are frequent blackouts in the energy sector. It is estimated that 40% of all production capacity is underutilized due to power constraints. Total power generation in the country is below 2,500 MW, and only 18% of the population have electricity in the home. Most industries have been forced to rely on their own high cost captured power systems for reliable service, greatly increasing their cost of production.

There are many investors eager to invest in both the power and natural gas sectors, but investors find it most difficult to close deals. Recently two large new Independent Power Producer (IPP) contracts have been signed with foreign investors, and new gas blocks are to be signed soon, raising hopes of possible change to come. The telecommunications industry is also constrained by an overbearing state monopoly, but here also there are recent signs of deregulation as cellular and internet providers gradually take over a larger market share. The country as a whole needs a substantial inflow of private capital for infrastructure development, especially when the traditional lenders such as the World Bank and ADB are shifting to poverty and social programs instead of infrastructure development.

While it is easy to find fault with the economy, there are signs of encouragement. The ready made garment industry employs nearly 1.5 million workers, and has until recently expanded its export base rapidly. Exports of shrimp and fish products are strong, and agriculture exports have great potential. The natural gas reserves of Bangladesh are largely untapped, with several initial discoveries proving to be world-class in nature. A wide variety of smaller industries operate effectively, many with connections to the UK or US which facilitate exports. Overall, GNP has been growing at about 4.5 to 5% over the recent years, with inflation now at 5%. While structural reform has been slow coming, there are small actions continually being undertaken which at least support a positive trend.

C.2 What role has USAID played?

USAID rural development programs have had a major impact on rural economic growth and poverty reduction of Bangladesh. Since independence the US has provided over \$2.2 billion in food assistance for development and poverty alleviation. This valuable resource served to feed vulnerable groups and school children, while at the same time it generated local currency accounts that financed the construction of over 30,000 km of rural roads, repair of schools throughout the country, irrigation and drainage, and sanitation facilities.

Agriculture production and research programs, totaling over \$650 million since 1971, have boosted foodgrain production and food security, and can take a big share of the credit for Bangladesh now being largely food self-sufficient. This was assisted by USAID's longstanding support for rural electrification, which now helps power most of the country's irrigation system, as well as rural industries. All together, our energy assistance programs have totaled over \$200 million. USAID funding for microcredit has totaled over \$90 million, and includes support to PKSF, a government sponsored liquidity fund for NGO microfinance programs, and NGOs such as Grameen, BRAC, Proshika and others.

USAID has also taken periodic steps to deregulate the economy, such as the Financial Sector Reform Program of the early 1990s. Together with more recent policy initiatives to reform small and microenterprise lending, we have made positive inroads on interest rate policy, credit reform and bank supervision.

C.3 Key Institutions

The following are some of the prominent and effective institutions in the infrastructure and economic growth sectors. One asterisk notes institutions which have received significant USAID support. Two asterisks notes institutions largely established and developed through USAID leadership and funding.

- Rural Electrification Board**
- Local Government Engineering Department (GOB) *
- Grameen Bank*
- BRAC*
- CARE/Bangladesh*
- Bangladesh Garment Manufacturers and Exporters Association

C.4 Lessons learned

- Rural development programs of the 1970s and 1980s had a very profound effect on poverty alleviation in Bangladesh
- Reform of the financial sector is critical for sustained growth of the formal economy
- Socialist economies don't work
- Corrupt labor unions in Bangladesh are one of the strongest opponents to reform

C.5 Major trends

The Asian financial crisis largely passed by South Asia in terms of causing major bank and business failures. Yet the indirect impact has been considerable. With most other countries now

having greatly devalued their currencies, Bangladesh is facing much stiffer competition for its exports. As a result, exports, which were growing 18% annually, are now growing only 3%. The IMF and World Bank predict GDP growth over the next five years will be approximately 4.5%, well short of the 7-8% that they feel is needed to lift Bangladesh out of its severe poverty. The ready made garment industry faces reforms mandated by the WTO by 2005, which will require Bangladesh to cut its costs considerably if it is to remain competitive in the world market. Foreign investors in a broad range of sectors are increasingly fed up with the frequency of hartals and work stoppages, and Bangladesh may well lose not only potential investors but also those already invested if street politics proceed unabated.

Agricultural production appears to be a bright spot, with improving yields and diversification promising to boost rural incomes more rapidly than in the past. The GOB has taken a variety of steps to deregulate and open up the agriculture input markets, rationalize tariffs, and enhance the environment for agribusiness. In addition there are hopes that the IT sector may prove to be as potentially vibrant as it has been in India. It remains to be seen if the education and business support systems are adequate to help develop this sector. Natural gas could be a major growth industry if Bangladesh would take decisive action to develop and market its reserves. Otherwise, the economic trend in Bangladesh is positive but not sufficient to create employment opportunities for the modern generation or significantly reduce poverty levels.

Given the fact that national elections are to be held within the year, it is doubtful the present government will accelerate the pace of reform in finance and investment. The period right after the next election will be a critical time wherein actions must be taken if the next five year period is to herald a major economic upturn.

C.6 Regional and international context

The clouded outlook for the Bangladesh economy is in stark contrast to the generally upbeat world outlook, and to the positive prognosis for India. While one would hope that a rapidly deregulating and expanding Indian economy would also help boost Bangladesh, the miniscule level of regional trade needs to be rapidly expanded if Bangladesh is to benefit. Perhaps more than anything else, Bangladesh needs to understand the importance of its regional market, especially that of India. Recent efforts to create trade corridors by India through Bangladesh have been overturned due to political jockeying in Dhaka. Nevertheless, the present government seems moderately committed to improving relations with India, and there is some hope for better links in the future.

To highlight the importance of the “global economy”, it seems Bangladesh needs a major wake up call. As noted by economist Jeffrey Sachs in a recent visit to Dhaka, Bangladesh is precariously perched at the lower rung of those countries trying to get into the global economy, but very close to slipping back into the have-not group. The implications for India and the U.S. of Bangladesh failing economically could be considerable. The primary obstacles to reform are linked to the need for good governance and leadership. Economic reforms and responsive governance go hand-in-hand, especially in Bangladesh. Special interests are largely behind the slow pace of change, with corruption and political patronage keeping reforms at bay. Bangladesh seems to believe it has plenty of time to change, a dangerous assumption given the pace of change in the world economy.

D. ENVIRONMENT AND NATURAL RESOURCES

D.1 How far has Bangladesh come?

The environment in Bangladesh is one of the world's most unique and vulnerable, while also being one of the most robust and generally able to regenerate itself. The world's largest delta basin, Bangladesh lies where the Ganges and Bramaphutra rivers meet the Bay of Bengal. Most of the country is only marginally above sea level, and during the monsoons, over one-third of the country is flooded even in normal years. Of all environmental issues, surface water management is at the top of the list for this country. Water regenerates its soil, brings bountiful fish resources, provides irrigation and drinking water, and transports people and goods. It also keeps alive a unique biosystem with species rarely found elsewhere in the world.

Over the past 15 years, the water flow into Bangladesh from upstream rivers has been reduced by 25%. The Farraka Barrage on the Ganges river is one major reason, but it is also the result of many smaller impacts caused by irrigation projects, small dams, siltation upstream, deforestation, and urbanization. While this trend is not likely to be reversed, it must be controlled, or Bangladesh is in trouble. To its credit, the GOB understands this very well, and has helped to take on the problem. The open water management program, which USAID has just initiated, is part of a nationwide program under the auspices of the Ministry of Fisheries and Livestock which will undertake the preservation of critical wetlands throughout the country. The Ministry of Water Resources has also been active in creating a national and regional water plan.

Despite population pressures in Bangladesh, the annual rate of deforestation is less than 1%. Even with this lower rate of deforestation, as of now, almost 30% of all forest cover has disappeared. The country's upland forests are largely confined to Sylhet, Mymensingh, Dhaka, and regions in the eastern hill tracts above Chittagong. The mangrove forests are in the south, dominated by the Sundarbans. The Sundarbans is the largest surviving mangrove forest in the world, and an important international biodiversity site. Deforestation from logging for timber, paper and fuel, pollution, animal poaching, and reduced water flow is creating a devastating effect on these forests. Responding to international recognition of the importance of preserving the Sundarbans, the new Tropical Forest Conservation Act will help in addressing mangrove forest preservation and reforestation.

Other environmental issues include:

- soil degradation caused by nutrient depletion, salinity, and imbalanced use of fertilizers, an issue not receiving much attention;
- water quality degradation, especially surface water due to poor sanitation;
- industrial effluents, and pesticide runoff, which has largely not been addressed by anyone;
- arsenic contamination in the drinking water, a problem that many donors are seized with but in which the GOB is not taking an active role;
- degradation of the urban environment, including water and sanitation, solid waste, and worsening transport-related air pollution caused in great part by two stroke engines;
- energy-related pollution, including commercial energy and biomass use; and,
- the probable impact of global climate change, particularly sea level rise and associated economic losses.

Over all, the Bangladesh people place a high priority on preserving the environment, but the GOB has yet to mobilize broad support to address the problems. There is a small but growing

community of environmental NGOs, several of which have a world-class reputation, that plays an increasingly important role in the sector. Donors have not yet given environmental issues a high priority.

D.2 What role has USAID played?

Although USAID has only recently developed an explicit environmental sector program in Bangladesh, it has nevertheless taken an active role on several environmental issues. USAID's largest contribution has been its longstanding support for disaster assistance. By training villagers how to cope with flooding and cyclones, preparing shelters and environmentally friendly roads, and establishing feeding procedures, the people of Bangladesh are now well prepared to minimize the loss of life and assets associated with the regular environmental disasters it will continue to face. USAID also supported the Bangladesh National Environmental Action Plan (NEMAP) in coordination with the UNDP.

In water management and road development, USAID has helped lead the assessment and plans for mitigation arising from road construction and irrigation works in floodplains. USAID played a significant role under the World Bank-coordinated Flood Action Plan (FAP) donor consortium. FAP based its study on the USAID-financed Eastern Waters Study, which discussed strategies to manage floods and drought in the Ganges-Brahmaputra basin. USAID pioneered the introduction of environmental concepts to water management planning, and supported four important FAP components – flood response, environmental impact studies and training, geographic information systems (GIS), and identification of appropriate flood proofing measures. On arsenic contamination, USAID supported a study on the impact of rural electrification on groundwater quality through NRECA. More recently, ICDDR,B has begun research on the health aspects of arsenic.

The Mission has availed of several USAEP environmental exchange programs to expose Bangladeshi policy makers to advanced environmental technologies. USAEP, through The Asia Foundation, has also worked on a number of NGO-buisness partnerships for industrial environmental management, and on industrial pollution in the leather tanning industry. USAID has also involved RUDO to support an urban environmental program in the city of Khulna. More importantly, USAID has supported the Bangladesh Climate Change Country Studies, and is currently supporting development of the Bangladesh Climate Change National Action Plan in conjunction with the GEF.

D.3 Key Institutions

The following are some of the prominent and effective institutions in the environmental sector. One asterisk notes institutions which have received significant USAID support. Two asterisks notes institutions largely established and developed through USAID leadership and funding.

- Bangladesh Center for Advanced Studies (BCAS)*
- Environment and GIS (EGIS) for Water Sector Planning**
- Ministry of Fisheries and Livestock*
- Ministry of Food (disaster assistance)*
- Ministry of Water Resources

D.4 Lessons learned

- Water management is the most important national and regional environmental problem, and a prerequisite for resolving many agriculture and fish production issues.
- The Sundarbans and other mangrove forests are not just important for tigers. They represent an important world resource for sea life and many other species.
- Increasing foodgrain production has had a high environmental cost in this delta country.
- The worst abuses in deforestation occur on tribal lands.

D.5 Major trends

The Government of Bangladesh is taking a lead position in the research and action program for national water management issues. While national programs must now proceed rapidly, the need for regional cooperation is paramount. Pending hydropower proposals in Nepal and India, along with the constant expansion of irrigation projects upstream, are threatening to dramatically reduce the water flows into Bangladesh. In forest management, there is some move toward reforestation, but not much initiative to curb the worst excesses. The GOB has a Forestry Sector Master Plan which is a good wish list, but lacks focus. Little if any impetus to curb industrial pollution is apparent. On arsenic, there are many programs underway, but leadership from the GOB is lacking. On disaster management, the GOB gets very high marks. The GOB passed an Environmental Protection Act in 1995, but the Ministry of Environment and Forests is weak both technically and institutionally, and cannot ensure compliance with the law.

D.6 Regional and international context

As noted above, regional water management is of critical importance to Bangladesh. With water flows already down over 25% over the past 15 years, Bangladesh must plan to cope with reduced flows, and at the same time work with SAARC and other regional bodies to better plan for upstream interventions. As in many regions, water negotiations are extremely challenging political undertakings, with the upstream countries usually holding the trump card.

Related to water is the need for regional research and action on the issue of arsenic contamination. The problem seems to have a common source in West Bengal and Bangladesh, so it is hoped that resources can be shared to best effect between India and Bangladesh. The World Bank, UK (DFID), and UNICEF all have major national programs for arsenic mitigation in Bangladesh.

On forestry, we are pleased that the USG has included Bangladesh in the initial round of countries eligible for the Tropical Forest Conservation Act. This can only help to highlight some of the world class animal, sealife, and forest resources that are found in Bangladesh. On clean energy, Bangladesh is not only capable of restraining greenhouse gases within its borders, but the possibility of gas exports to India could make a significant contribution in reducing the use of high carbon coal for power generation in India.

PART II: PRIORITIES AND STRATEGIC FRAMEWORK FOR THE COMING 10 YEARS

Bangladesh is at a stage in its development where it must both retain the progress it has made in basic development and poverty alleviation, and at the same time bootstrap itself up to meet the demands of the fast-paced world. Presently total donor support is just under \$2 billion per year, but even the continuation of this level of support will fall far short of the amount of investment required to meet the needs of the coming decade. The status quo will not do.

Bangladesh must begin to focus not only on poverty alleviation, but also on growth. Likewise the donor community must shift its attention away from a predominantly humanitarian approach. For USAID, we are proposing the following strategy:

❖ Help Bangladesh ensure national survival and prepare to enter the global economy.

Bangladesh must be diligent to not lose the gains it has made that brought it from the depths of despair in its early years. At the same time, it must gird itself to compete in world markets if it hopes to generate the economic growth required to lift its people out of poverty and offer an improved life to all.

A. SURVIVAL.

The three areas of greatest importance to Bangladesh for survival are population, food and water. Limiting the population growth of Bangladesh has been an evident necessity since Bangladesh independence. UNICEF projections show Bangladesh will have an estimated population of 179 million by the year 2025, having then passed Russia and Japan to become the sixth most populous country in the world. If Bangladesh meets its ambitious fertility reduction goal of getting down to 2.6 live births per 1000 by the year 2003, the population would still peak sometime midway through this century at around 225 million. This major upswing, despite a successful population program, is due to the momentum built up from the present population which is largely young and in child-bearing years. For anyone who has been to Bangladesh, already the most densely populated major country in the world, one can hardly imagine the consequences if Bangladesh does not maintain its vigilance in meeting population targets.

Food shortages were, until recently, an overwhelming concern of the GOB and the international community. In the past few years, however, food has become an issue principally when major disasters hit Bangladesh. Fortunately for Bangladesh, the US had a bumper crop during the major floods of 1998, and we provided over 700,000 tons of wheat to meet the country's needs. Yet the poor of Bangladesh are still living on the edge. While foodgrain production has increased dramatically, the rural poor still lack the cash to buy food, and are heavily reliant on feeding programs and income generation programs which boost their ability to buy food. Further, natural disasters in Bangladesh are the rule, and not the exception, so the country must be able to deal with the major upheavals brought by floods and cyclones. Food storage and distribution are key components of effective management of such disasters.

In earlier years, Bangladesh would not have thought of water as a major problem for survival. However, population pressures on the land and rapid reduction of the country's river flows now means that drought and water shortages are a far greater threat to the country than flooding. Further, with the country increasingly dependent on irrigated grain production for survival, there is reason to conclude that the present structure of food production is not sustainable. Add to that

the rapid decrease in fish catch from open waters, the primary affordable source of protein for the rural poor, and it becomes increasingly clear that water is a major problem for Bangladesh.

Two trends add to the concern about water. The first is global warming. Few countries are more threatened by rising oceans than Bangladesh, which is likely to find its land mass shrinking rapidly as water levels rise. The second is upstream water usage. With Nepal already having concluded that hydropower is the magic solution to help it earn foreign exchange in the future, the implications are grave for downstream Bangladesh. Upstream countries will increasingly store water during the lean season, when Bangladesh needs it the most, and release waters when the monsoons peak, when Bangladesh wants it the least.

B. PREPARING TO ENTER THE GLOBAL ECONOMY.

While Bangladesh is rich in soil, natural gas, and human resources, it is a cash poor country. By no stretch of the imagination is Bangladesh capable of pulling itself out of poverty without earning through exports in the world markets. Right now Bangladesh has a small stake in the world economy with its garment and seafood exports, but it is a very high cost production base even given the country's cheap labor. If Bangladesh were to decide to fully join the "global economy" right now it would be a futile attempt. It simply cannot meet the basic demands of the marketplace. With global markets changing so quickly, Bangladesh will have to hustle just to keep the small markets it now has.

Although many factors are required to prepare Bangladesh to enter the global economy, the most critical actions include:

- clean up non-performing loans and recapitalize the banking system
- allow full competition in the financial sector to domestic and foreign firms
- upgrade sea and airports
- deregulate energy and telecommunications
- further encourage foreign investment in the natural gas sector
- facilitate trade and transport with India
- improve education at all levels
- fight corruption and political control of businesses
- remove tariff and regulatory disincentives to exports
- adhere to the rule of law, especially contract law
- improve the law and order situation while discouraging hartals for political gain
- encourage private investment in basic infrastructure

While this is a daunting list, the fact is that many of these changes are already within reach. The common factor holding back most of these reforms is the absence of political reform and political will. For this reason we reiterate that responsive, democratic governance is essential for economic reform to succeed.

C. THE USAID/BANGLADESH PROGRAM.

The selection process that led to the present mix of strategic objectives very much followed the strategy outlined above. The Mission knew that USAID has played an important role over the past decades in lifting the country out of peril, and that maintaining the progress achieved and momentum in poverty alleviation is still important. At the same time we knew that economic growth was not receiving adequate emphasis if we looked solely at poverty and food security.

We therefore culled the portfolio to retain the most critical and best performing poverty and survival programs which would also meet broad USG objectives to ensure funding availability and Washington support. These were our Title II Food Security program, our refashioned open water and tropical forest management program, and our longstanding PHN program. To this mix we added new clean energy, enterprise development, and democratic institution programs, culminating in the recent SO approvals in the Economic Growth and Agriculture Development portfolio, and the new democracy SO submitted concurrently with this Strategy. The specific context for these six SOs is described below.

C1. Survival/Poverty Reduction

Food security, as broadly endorsed by the Agency, is a complex, multi-sector undertaking. It is also one of the most serious issues facing South Asia, home to a large percentage of the world's poor and undernourished people. The most direct undertaking is our SO 8, Improved Food Security for Vulnerable Groups. This SO targets the 200 poorest, most disaster-prone thanas in the country, and strengthens vulnerable group feeding programs, farm to market roads, urban slum sanitation, and health and nutrition education. CARE and World Vision, the two primary implementers of the food security program, are also leading the way in innovative new approaches to disaster preparedness which are a critical component of this SO. If people make headway in good times, but lose everything whenever a major flood hits, Bangladesh will always be poor.

USAID continues to be a pioneer in promoting private sector participation in food procurement and distribution, and in promoting local government and private sector development in rural infrastructure programs, thus serving growth and democracy objectives in the achievement of humanitarian and poverty goals. We note that the Ministry of Food fully supports this private sector approach, one of the main reasons that disaster preparedness has come so far in Bangladesh. The GOB understands that the private sector is not only more cost effective, but in emergency situations it can respond much more quickly than government to priority needs.

Food security supports and depends on many of the other SOs. The new enterprise development SO, while targeting growth, supports the continued, vigorous development of microfinance. Microcredit is thriving in Bangladesh, and is extremely important in providing new income opportunities for poor rural households. We are targeting improved management and policy support to expand the strongest microfinance institutions. We also support microfinance through Title III and 416b resources as available.

Food security is also important for the PHN SO. Since more than 50% of all child mortality is linked to malnutrition, improving the nutritional status of children by facilitating and promoting the consumption of sufficient, nutritious food is a key element to improving their health. Likewise, nutritional status of young children is one of the most sensitive indicators of changes in food supply and health conditions, and child malnutrition is an important indicator of overall economic and social development. Lastly, the civil-society approach to democracy as proposed in the new DG SO is based on the need for all sectors of society to have voice. The poor clearly are on the outside looking in with respect to influencing national policies and practices. They also suffer the most from corrupt, inefficient government. If the vast majority of the population are to receive adequate health, education and other basic services, it will require either a much more responsive government or alternatives to government provided services.

Water is unquestionably the survival element which has so far not received adequate attention, and which is starting from near ground zero. Whereas successful food and population programs are already in place, a nationwide water management program is just getting underway, and regional efforts are barely beginning. USAID's new SO, Improved Management of Open Water and Tropical Forest Resources, is a major reconstruction of an earlier program which emphasized fish production. In reviewing this new program, it became clear that fish production was diverting attention from the more pressing issue of managing Bangladesh's open water resources. The poor of Bangladesh have always relied on the rivers and wetlands for catching small fish as their source of protein. The recent dramatic drop in fish catch is a direct result of the major reduction in water flow into the country, the continued reshaping of the land for irrigation, towns and housing, soil erosion and siltation from cropping and deforestation, and competing demands for water such as irrigation and industry.

The new water and forestry SO is a community approach to getting all land and water users in a microenvironment to work together for the common good. It is a program of national scope for which USAID is the first in implementation. The Ministry of Fisheries and Livestock is overseeing the national effort, with many donors prepared to begin work. Past experience with fishery and water programs led to this approach. The efficacy of this approach has been borne out by the very positive experience in the first two wetland areas under the new USAID program.

Population, health and nutrition represents the largest, most successful program in the country and in USAID's portfolio. The need to succeed in reducing fertility to replacement levels is unquestionable. The pressure for jobs, social services, land, water, and other natural resources, which is already severe, will be tremendous over the next 50 years as the population passes the 200 million mark. Improving child health is increasingly recognized as an important companion to successful family planning efforts, and vice versa. Because health programs play a key role in improving well being and productivity, health is also an important factor in economic growth and educational attainment.

With the continuing need for improved and expanded health and family planning services, USAID should anticipate a major role in this sector for the foreseeable future. A major challenge will be to better harness the efficiencies of the private sector in providing these services, which USAID has started to do under NIPHP and which should be the primary focus of the program through 2010. Concurrently, USAID should begin to assist the GOB to gradually shift its emphasis from providing services directly to regulating, supervising, evaluating and financing the provision of those services by private contractors and grantees.

For nutrition, the challenges are even greater. The problems that lead to Bangladesh and India having such high levels of malnutrition are not yet fully understood. There is growing recognition that this is a major health problem that affects all aspects of human resource development in Bangladesh. Nutritional problems affect health and education status, workplace productivity, and quality of life. USAID will continue to support both health and food interventions to improve nutrition.

C2. Preparing to enter the global economy

Realistically, Bangladesh may be about 20 years away from possible full participation in the world economy. It will likely take ten years to put in place the basic infrastructure, services and policies needed to compete in world markets, and another ten years to gain proficiency in actual competition. This is all the more reason that no time should be lost in the structural reform process. Unfortunately, the present government is preoccupied with staying in office, and is not

yet prepared to take the political risks associated with widespread reforms. In particular, labor unions, the opposition parties, advocates of a humanitarian first approach, vested interests within the ruling elite, the risk averse bureaucracy, and the general socialist bias of the Awami League Party, all are forces aligned to resist change.

Economic Reform. The Mission, or the donor community as a whole, will not successfully force reforms to be undertaken. Even when the World Bank pressures the GOB to sign on to covenants, when the will is not there, it just doesn't get done. Bangladesh must be ready to change for the transition to succeed. For this reason, several of the key reforms which USAID would have selected to help lead, including bank reform and privatization, are not in the first phase of our proposed ten year program. We believe the best approach for now is to strengthen small businesses and take on financial reforms related to small and microfinance that the GOB seems prepared to support.

Likewise we are continuing support for agribusiness since this is an important sector where the government agrees that deregulation and export development is crucial. The Awami League's tradition of having strong roots in rural Bangladesh no doubt has encouraged this development. We have already seen that reforms required for agriculture, such as better customs services, rationalized tariff structures, and improved air transport facilities, will have a very positive spillover effect on all sectors. We also believe that developing a strong voice for liberalization within the small business and agribusiness community will help bring about the internal demand for change. This approach will dovetail well with our new civil society DG program. With over 5 million microcredit borrowers, and an expanding small and agribusiness community, these parties represent a potentially strong coalition for reform.

Democratic reform. The new Strategic Objective for DG, entitled Strengthened Institutions for Democracy, is critical for both economic development and survival. While representing a modest investment, it focuses on the most critical factor facing Bangladesh in the future. Bangladesh cannot expect the cooperation of its people as it undertakes large scale reform programs unless the people feel they have a voice and a stake in their own governance. If reforms are seen as an outside imposition only, they will fail. Likewise, the GOB will never mobilize the private and human resources required for either survival or economic growth if it continues to try and manage everything and everybody from the front office. Bangladesh represents one of the most centralized governments in the world. The need to divest power, and to allow its citizens to participate in the decisions affecting their lives, cannot be overemphasized.

There are no signs that the present generation of political leaders in Bangladesh will undertake broad political and economic reforms on their own. This was reconfirmed by a democracy strategy review conducted in cooperation with USAID/W in 1999. Given the present political conditions, it was determined that a targeted approach to strengthening civil society and its voice in political and economic reform was the most appropriate USAID response. In line with these recommendations, USAID has proposed to strengthen the capacity of civil society to help affect change through local government, parliament and human rights organizations. We have no illusions that this alone will change governance overnight. On the other hand, our lead in this sector has proven to have a strong impact on other donors and organizations. As civil society gains strength and experience, we are convinced it can accelerate its development without donor support as it confirms its ability to influence programs and policies.

It is clear that democracy is a long-term effort, and USAID should be prepared to support the proposed institutional strengthening through civil society for at least the full ten year strategy period. Nevertheless there are specific programs which should have a direct impact on economic

development in the near term. First, the human rights component will focus on reducing child labor and trafficking of women and children, two of the most serious human rights issues of international concern. Bangladesh will face difficult times entering world markets if it does not take seriously its human rights record. Secondly, if Bangladesh wants appropriate reform initiatives, it must have an effective Parliament. The Mission's initial success through NDI in improving the effectiveness of Parliament committees, and bringing civil society into the debates in Parliament, are encouraging signs. We will support civil society in working toward a committee environment where legislation and reform programs can be openly debated, and where the unique needs of Bangladesh can be incorporated into the reform process.

We note that corruption is also being addressed under the democracy SO, with Transparency International-Bangladesh as a key partner in establishing citizen groups that can highlight abuses and call for action. With the civil service being one of the prime targets in fighting corruption, the need for strengthening local elected bodies becomes increasingly apparent. The civil service now fully controls all development and civilian systems except the union councils, which have minimal resources or financial authority. This is unlike India where the States and other intermediate elected bodies serve as a strong counterbalance to central political and ministerial controls. By educating civil society on their rights and strengthening existing institutions that implement and support good governance at the grassroots level, the ability of the public to oust corrupt and incompetent leaders will increase.

Infrastructure Development. USAID has carved out an important new role in bilateral and regional energy development. With our strong operating history in rural electrification as a base, the Mission has established itself as a key partner with the World Bank and ADB in developing an appropriate regulatory, environmental, and operational structure for the future of the power and natural gas sectors. Because of the large potential for gas and power exports in the region, the initiation of the South Asia Regional Initiative (SARI) in energy is an important companion to the bilateral clean energy program. Energy sector development is important for Bangladesh not only to fuel its own growing industries and commerce, but also because it is potentially the largest source of export earnings for its internal development, including other infrastructure and social services. Given the clear competitiveness of US energy firms and technology in the energy sector, this is a natural, strong choice for inclusion in the USAID strategy. The initial positive experience in FY 1999 with the clean energy program reinforces this decision.

The inadequate road network in Bangladesh is a major impediment to economic growth. We will continue under Title II to develop the tertiary roads that bring the most impoverished regions of Bangladesh into the modern economy. Major highways, telecommunications, and ports, are equally important, but are deemed less appropriate for USAID grant interventions since the private sector and multilateral donors are taking the lead.

Education/program modification. While education is a very high priority for economic growth, USAID takes only a peripheral role in this sector. It is, and will remain, a high priority for local currency programming as possible. Education and training for child laborers is also an area where USAID and Department of Labor will cooperate with funding for non-formal education schools run by NGOs. The major problems are, however, that the GOB has not been willing so far to work with donors on the many needed reforms to education which would be required to improve the quality of education. The highly centralized Ministry of Education is not prepared to relinquish its power or change its systems. From a funding perspective, we also note that USAID has not given education a high priority.

In the future, should additional funding and support become available, and should the GOB begin to reform, USAID should seriously consider adding education to the USAID/Bangladesh program. Likewise, should the economic reform program, especially banking reform, pick up steam, USAID should consider modifying the small and agribusiness program to provide a greater emphasis on structural reforms. The agribusiness and small business SO has been designed with a policy and banking program that could easily adopt to a changing reform environment.

PART III: SECTORAL PROGRAM CONTEXT

While USAID brings substantial resources to the tasks we have selected, we are a small piece of the total puzzle. In this section we set forth the sectoral context and interrelations of the USAID/Bangladesh program. For each of the six strategic objectives of the program, this section addresses the following issues: 1) how the USAID SO program fits together with planned activities of the GOB, private sector and other donors in that sector; 2) how the SO program relates to overall USAID and USG objectives; 3) how the sector program relates to other programs in the USAID portfolio; and 4) changes that might be anticipated over the ten-year strategy period. At the end of the section is a summary of development funding from all sources.

A. REDUCED FERTILITY AND IMPROVED FAMILY HEALTH (SO 1)

A.1 Sector Fit

At the urging of the World Bank and other donors, the GOB has adopted a sector-wide approach to managing and coordinating all donor inputs in the health sector. The Bank and several members of a 14-member donor consortium, which includes USAID, focus primarily on a variety of systemic reforms in the government sector, implemented under the Bank's large Health and Population Sector Program (HPSP). Although USAID provides technical assistance to the GOB related to some elements of HPSP where we have a comparative advantage, USAID does not fund HPSP or provide funds to the GOB. However we do, as noted above, support substantial ESP service-delivery activities implemented through NGOs. These activities are consistent with, and part of, the GOB's national strategy, which envisions a wider role for NGOs in the national health system. USAID, the UK (DFID), and the ADB are the major donors supporting NGO activity in the sector, with each donor having clearly delineated and coordinated coverage areas.

In addition to HPSP, the Bank will soon fund a major "National Nutrition Program" (NNP). USAID participates in the NNP steering committee for sector coordination. While USAID's nutrition activities are limited largely to vitamin-A initiatives and we do not expect this focus to change, our national Nutrition Surveillance Program is likely to become the evaluation arm of the NNP, and our vitamin-A activities are consistent with national nutrition priorities.

A.2 USAID/USG Priorities

We anticipate no change in our strategic objective for PHN: fertility and mortality reduced. We intend to attain this objective by concentrating on the following broad priorities through 2010:

- Delivery of the Essential Service Package through NGOs, including the gradual introduction of safe-delivery services and emergency obstetric care and the increased use of long-term family planning methods consistent with free and informed client choice
- Increased use of family planning by newlyweds to raise the age of first births

- Improvements in the quality of services included in the ESP
- Expanded communication programs related to these services
- An expanded role for NGOs in the national health system
- Institutional development for NGOs
- Social marketing of contraceptives and other products (primarily commodity support)
- TA for planning and managing (but not implementing) GOB training programs related to the ESP, based on NIPHP experience
- TA to integrate and improve health and family planning logistics systems, based on NIPHP experience
- TA to increase immunization and vitamin-A distribution coverage, and for the integrated management of childhood illness (IMCI)
- The fortification of wheat flour with vitamin-A
- Health-care financing, including user fees and small, pre-paid health insurance schemes, possibly implemented in conjunction with microfinance activities

Although their impact on fertility and mortality will be negligible, we also intend to support polio eradication, a global agency priority, and a modest, highly focused program for HIV prevention to maintain currently low levels of infection. Finally, we intend to support a series of population-based surveys to measure the attainment of key USAID indicators at the IR level, in addition to Demographic and Health Surveys to measure strategic objective attainment at the national level.

A.3 Cross-Sector Relationships

Improvement and expansion of sustainable health and family planning services contribute directly to virtually all other SOs within the program. Stabilizing population growth contributes directly to any attempt to maintain a balance between population and the natural resource base of the country, especially food and water availability. Probably no other undertaking is as important for Bangladesh. With respect to economic growth, one of the primary lessons learned from the rapid economic growth of East Asia has been the benefits of large-scale investments in health and education by the governments in that region. The GOB is also now committed to improving health and education, and we concur that this is a proper emphasis.

For democracy, women's rights programs throughout Bangladesh grew out of the family planning movement in the early 1970s. There continues to be a strong interaction between maternal health initiatives and women's empowerment, strengthened by the recent steps to bring women out of the house to nearby satellite clinics for services. This is often one of the primary contacts that many rural women have with the outside world.

A.4 Looking Ahead

The Bangladesh health system is currently in the initial stages of a major reorganization which, given the slow pace of change so far, may well take a decade to complete and bring to fruition. The integration of what has amounted to nearly separate 'ministries' of health and family planning, with all the systemic administrative, managerial and personnel changes that implies; the need to improve the efficiency and effectiveness of bureaucratic systems that have been inefficient and ineffective for years; the shift to the Essential Services Package and the need to train over 100,000 health workers; the unification and improvement of logistics, procurement and information systems; and the virtual initiation of effective systems of supervision and quality control -- all call for a long-term perspective as far as the government system is concerned. Although we will need a degree of patience, we are still optimistic that goals will be reached.

Given these constraints, and the availability of ample funding from the World Bank and its co-funders to address them, USAID's PHN program will continue to focus largely, though not entirely, on service provision by NGOs. The main elements of that program through 2010 will be:

1. The continuation, modest expansion and maturation of on-going efforts with private service providers (NGOs and the Social Marketing Company) under NIPHP, scheduled to run through April 2004.
2. The greater expansion of those efforts to new NGOs and new geographic areas, as feasible, from 2004 through 2010.
3. Efforts to increase the financial sustainability of NGO programs by designing and implementing pre-paid insurance schemes.
4. Work with the GOB to design and implement new initiatives in which the GOB grants to or contracts with NGOs (using non-USAID funds) to provide essential services and monitor NGO performance. This would include GOB provision of substantial quantities of contraceptives (orals, condoms and injectables) to the Social Marketing Company.

Collateral elements of the program through 2010 will be the continuation of technical assistance to the GOB related to support systems. This would include 1) systems required to enable the GOB-assisted operation of NGO services, such as the procurement and supply of health and family planning commodities; or 2) systems that facilitate the incorporation of USAID-funded NGO initiatives such as training and quality assurance into the national system. Additional technical assistance will also be provided in key technical areas such as increasing low immunization coverage or the effective implementation of IMCI. Support for HIV prevention will continue at a level appropriate to the prevalence of infection and program capacity. Support for polio eradication will continue until Bangladesh is certified polio-free, hopefully in 2005.

B. IMPROVED FOOD SECURITY FOR VULNERABLE GROUPS (SO 8)

B.1 Sector Fit

The public food distribution system is overseen by the Ministry of Food, a long-time partner of USAID and one of the most effective ministries in the Government. During times of disaster it is also our main partner. USAID is the major donor in food aid and the rehabilitation of rural roads, followed by the World Food Program (WFP). The UNDP, UNICEF and DFID all contribute to disaster preparedness and response activities. Overall policies in food management are greatly assisted by the IFPRI policy team which is financed by USAID under this SO. With IFPRI's guidance, the sector has been well directed and coordinated.

There is an active Local Consultative Group (LCG) within the World Bank donor forum, the LCG being headed by WFP with USAID as an active participant. CARE and World Vision, the two USAID Title II partners, are also active in the LCG meetings. The targeting of geographic areas is coordinated through poverty studies conducted by the WFP, and CARE greatly facilitates the coordination of works programs through maintenance of a comprehensive GIS data system for the whole country.

Coordination of food amounts to be brought in still largely depends on surplus quantities and commodity prices in the world, and is thus difficult to time and coordinate. To compensate for this unpredictability, the GOB has increasingly relied on private sector sellers and distributors for critical foodgrain supplies. Nevertheless, surplus food is generally welcomed to help minimize the demands on scarce foreign currency accounts, and once food is allotted by donor countries, the coordination within Bangladesh is excellent, as is the host country leadership on both food security and disaster assistance

B.2 USAID/USG priorities

Food security as a major international development agenda item was brought to the forefront by the FAO in Rome, with the US Government and USAID recently providing a strong endorsement to this initiative. While food imports and food security are not a frontline issue for many missions, South Asia is one of the highest priority regions in the world for food security. With Bangladesh high on the list on almost all indicators of nutrition and food problems, we believe a continued program along the lines of the present Title II initiative is essential. USAID works closely with the USDA offices in New Delhi to design other possible food assistance programs. For instance, recent 416b wheat proceeds have allowed the Mission to provide local currency support for child labor, local government development, agriculture research and food storage programs.

B.3 Cross-Sector Relationships

Three of the SOs in the portfolio have a very close, symbiotic relationship. These include the food security SO, the agribusiness and small business SO, and the open water management SO. Within these, our food security program plays a major role by:

- reducing the pressure to grow grain crops while the rural areas undertake a shift toward higher income crops. This in turn will relieve the demand for food security programs as rural incomes increase.
- Building rural roads which directly enhance rural income generation and marketing prospects.
- Minimizing the threat of a major setback during disasters, which allows the GOB to be more willing to take risks in its reform agenda.

The Title II programs also directly and indirectly support local government development. CARE/Bangladesh has completed a very successful pilot program in local government development which has now been expanded under the new five-year DAP. USAID will be combining Title II and 416b local currency initiatives to continue the local government and civil society development programs under the new DG SO. In addition, CARE and World Vision both implement their rural works programs through union councils. This process has contributed significantly to public participation in, and understanding of, local government programs.

The other major linkage of food security is with the PHN program, especially nutrition. Not only are the emergency and school-feeding programs important for nutrition, but new endeavors to introduce fortification of imported wheat, and new vitamin-A rice seeds for possible local cultivation, could be major steps in combating vitamin A deficiencies.

B.4 Looking Ahead

Right now, the GOB has its storage facilities full to the brim with wheat and rice. With the knowledge that the country is getting better all the time at managing disasters, we think large inflows of emergency food assistance will not be required for a while. We believe the GOB wants to make it through future disasters without calling for food. They are perhaps within reach of this goal. To support the vulnerable groups feeding programs where incomes are too low to take advantage of available foodstocks, there will be a continuing need for targeted feeding programs for the near term. Once the five year DAPs of CARE and World Vision are completed, it will be appropriate to revisit the impact and need of wheat imports again.

C. IMPROVED MANAGEMENT OF OPEN WATER AND TROPICAL FOREST RESOURCES (SO 6)

C.1 Sector Fit

The open water management component of this SO is the direct outcome of earlier USAID technical assistance to the Flood Action Plan, The Ford Foundation work on community-based wetland management, and ADB and World Bank fisheries loans. Working together with the Ministry of Fisheries and Livestock, and the Ministry of Water Resources, there was a broad consensus among all donors that a community-based water management (CBWM) initiative needed to be undertaken nationwide. The team leader for USAID's open water program was the lead consultant working to develop the CBWM program. While USAID is the first donor to begin implementation, the World Bank Fisheries IV program has followed right afterward, and there are at least five other bilateral donors coming right behind. The division of work has been laid out ahead of time geographically to avoid duplication. USAID has helped pioneer in the performance monitoring structure, ensuring that the data we collect for our SO will be used by all donors to develop national statistics as programs proceed.

In the tropical forest management component, we are still searching for the best fit. This work is closely related to the open water management program, since the tropical mangrove areas are actually one of the important open water resources of Bangladesh. The main concern is that the ADB and other donors already have large programs underway in the Sundarbans area, so we are looking at other mangrove areas for the Tropical Forest Conservation Act program. One possibility is the region south of Chittagong which use to be mangroves but was deforested in an unsuccessful attempt to promote shrimp farming. Experts believe this critical mangrove swamp could be regenerated. Besides the mangroves, USAID will examine possible interventions in upland tropical forests that could help broaden the ongoing open water management program to include a holistic watershed management approach. USAID will serve as a facilitator in this component, helping to set up the NGO trust that will ultimately be responsible for the program.

C.2 USAID/USG priorities

To date the ANE Bureau has worked largely in the Middle East on issues of water. With the recent addition of SARI, the opportunity to look more closely at South Asia could open up. From Bangladesh's perspective, this would be appropriate. Water sharing between Nepal, India and Bangladesh, and between Pakistan and India, will certainly be dominant themes in the region over the coming years. With one quarter of the world's population crammed in this relatively small landmass, the pressures on fresh water supplies will be enormous. From an environmental standpoint, we believe this program is already consistent with both the biodiversity objectives of

the USG and USAID, and with the water and forest conservation thrusts with respect in internationally critical wetlands and forests.

C.3 Cross-Sector Relationships

The most direct link of this SO is with the agribusiness and small business SO. The community based water management program begins with intense dialogue at the community level on the needs and constraints of the people. Without exception, the major demand of the people is to earn more income. In this respect, the agribusiness and small business programs are often the ideal answer to problems. For instance, if the farmers begin to understand that water-intensive crops like rice do not earn them near as much money as other high value cash crops, they can often make a quick transition that serves everyone's needs. Likewise if open water fisherfolk can be shown that illegal netting is damaging their own income stream, and can be organized to develop lease-based fish ponds instead, the result can boost incomes while reducing pressures on scarce water resources. The community-based approach of this SO also is a clear example of civil society taking responsibility for its own well being. Groups organized to date have marveled at how responsive the local government officials can be when everyone works together for a common goal. This impact will spread considerably as this program is unfolded nationwide.

C.4 Looking Ahead

We are only at the beginning of the new open water and forest management program, which we believe will take at least the full ten years of this strategy to successfully conclude. While expanding to include regional initiatives will be a big challenge given the powerful political undercurrents that water negotiations often involve, it is such an important regional issues that at least it deserves consideration. As the Tropical Conservation Forest Act program gets underway this year, this will also provide an indication of the potential for USAID to impact tropical forest preservation. As the Mission gains expertise and understanding of environmental issues in Bangladesh, we will keep open the option of expanding our environmental program should funding be available.

D. GROWTH OF AGRIBUSINESS AND SMALL BUSINESS (SO 5)

D.1 Sector Fit

There are surprisingly few major donors in either the agriculture or small business arena in Bangladesh. In agriculture, the World Bank is concluding a major Agriculture Research program, and the ADB is considering a new Northwest Agriculture program loan. The ADB has already worked closely with the USAID implementation team for our Agri-based Industries and Technology Development Program (ATDP) to incorporate lessons learned in their Northwest program. The World Bank Export Promotion loan has very relevant linkages to many of the sector and trade reform issues that USAID is targeting. A joint dialogue is already well along. The Dutch and Canadians are phasing down their existing agriculture programs. Our agribusiness program is managed cooperatively with the Ministry of Agriculture, which also takes responsibility for sector coordination. The Ministry has recently taken big steps forward in terms of endorsing a private sector and export-led approach to agriculture, in large part due to the positive experience of the ATDP program.

In small business, most donors support some aspect of microfinance, and support household level microenterprise. Small business has not received major attention from donors other than USAID and Germany. The banking system almost totally shuts out small business customers, leaving a

giant gap between their large customers and recipients of microcredit loans. For this reason we believe our assistance to small businesses is extremely important, and very likely to succeed.

USAID's initial efforts with market and production development and bank financing have both proven themselves to be highly appreciated by the GOB and business community and very effective at increasing sales and employment in targeted industries. USAID heads up the LCG for private enterprise and is a member of the LCG for microfinance. Within microfinance, USAID, through Title III local currency generations, is one of the two main financiers of the PKSF, a national organization which provides loans to microfinance NGOs. The new enterprise development SO is also involved in microfinance policy reform with the central bank and Ministry of Finance, which is coordinated through the LCG. USAID is also a key member of the macroeconomic coordinating group chaired by the IMF.

D.2 USAID/USG priorities

Support for agriculture, microfinance, and small and microenterprise have long been a high priority for USAID and the US Congress. The recently approved SO for small and agribusiness brought together pieces of ongoing programs in agriculture, job creation, income generation and fish production, and focuses on their common themes of policy reform, financial sector development, and production and marketing development. The USAID worldwide experience in economic development supports these themes as effective avenues for generating growth and employment. Many of the policy reform topics of importance to small and agribusinesses are also priority issues for the Embassy economic section.

D.3 Cross-Sector Relationships

Increasing household incomes is at the heart of virtually every initiative of the donor community. The sustainability of social services will ultimately depend on either the users' ability to pay or the government's ability to raise revenues. Food security is as much an income issue as it is a food production issue. In this respect, the shift from encouraging farmers to produce low profit foodgrains and instead grow high value crops is a major shift in the right direction. This shift will also help rationalize water usage, introducing more appropriate crops that can flourish in existing ecosystems rather than reshaping the land and watersheds. Agriculture diversification has also been demonstrated in Bangladesh to promote better nutrition. The home gardening program of Helen Keller has been a key research lab in this effort.

Within economic growth, the Mission believes the combination of enterprise development, energy deregulation, and strengthening democratic institutions is an approach which builds on the Agency's and Mission's best strengths and experience. Small and agribusinesses will especially benefit from improved performance in the energy sector, since these enterprises are the first to be cut off when loadshedding hits. Unlike large businesses which either do not get their power cut or have the financial resources to install captured power, the small businesses cannot afford generators and fuel. With respect to democratic reform, again the small businesses are at a major disadvantage to large businesses. Big businesses dominate the chambers and political organizations which influence public policy, and are often the beneficiaries of corruption. Civil society initiatives to curb corruption, promote the rule of law, and make government more responsive, will especially benefit small businesses.

D.4 Looking Ahead

Based on the positive trends in the development and deregulation of agribusiness, this sector program should be very successful. On the small business side, initial progress on production and marketing of selected industries has also been good. The absence of a clear commitment by the GOB to broad reforms for the industrial and financial sectors, however, will continue to be the biggest challenge. Should a reform movement gain momentum, USAID should consider increasing its policy component of this program, particularly for financial sector reform, while perhaps cutting back on enterprise-specific development. If structural reforms are not forthcoming, or the economic environment worsens, the small business component should be reevaluated at least by 2005.

E. STRENGTHENED INSTITUTIONS OF DEMOCRACY (NEW SO 9)

E.1 Sector Fit

Democracy is a fledgling sector in Bangladesh, at least as far as donor assistance is concerned. Only recently was an LCG established to address democracy and governance, and few donors have specific governance activities. Nevertheless, almost every donor agrees that good governance is the most important issue in Bangladesh. This is highlighted by the fact that the development forum in Paris this spring will focus solely on governance and corruption as topics for discussion. The three donors who have taken on similar issues with respect to democracy are USAID, the World Bank, and UNDP. The World Bank has directed most of its effort toward judicial reform, whereas the UNDP and USAID are supporting parliament and local government development. It is too early to say there is sectoral integration because programs are just now getting underway. Initial dialogue however has been very productive, and bilateral donors such as the UK and Denmark are preparing to work on local government.

When one looks at civil society and human rights, however, the sector is much more mature. First, the NGO community in Bangladesh is one of the most vibrant in the world, and the donor community is a strong supporter of the NGOs. In human rights, almost every donor has some aspect of its program directed toward girl's and women's empowerment, which has already had a profound impact on the lives of rural women. On the specific human rights areas of trafficking, child labor, and domestic abuse, and in anti-corruption programs, donor coordination is becoming fairly effective. Unfortunately, there is a dearth of strong local organizations that can serve as a counterpart to donor initiatives on sector-wide programming. The GOB has talked for years of creating a Human Rights Commission, but no action yet. There are also no broad-focused nationwide human rights organizations. The donors are therefore leaning toward coalition building among many smaller NGOs. ATSEC (Against Trafficking and Sexual Exploitation of Children), a new USAID grantee, and the Bangladesh Shishu Adhikar Forum (Children's Rights), are outstanding examples of NGO coalitions capable of having a national impact.

E.2 USAID/USG priorities

The US Government has established a clear, high priority for the support of democracy within our foreign policy. While total financial resources for the DG sector in USAID do not yet match the rhetoric, the increased interest in specific facets of democracy and human rights, including child labor, trafficking of women and children, and support for elections, is encouraging. The new USAID/Bangladesh democracy SO, submitted at the same time as this strategy, is designed

to address human rights abuses of international concern to the US while strengthening key institutions of democracy through linkages to civil society. The Mission Program Plan for Bangladesh has consistently noted the strengthening of democracy and human rights as the highest priority for the USG in Bangladesh. Coordination amongst the USG agencies in Bangladesh on the new democracy SO has been outstanding. Department of State commitments to support parliament and anti-trafficking programs are a clear signal of support. Recent announcements by the US Department of Labor of planned assistance for child labor and anti-trafficking further reaffirm the priority of these activities.

E.3 Cross-Sector Relationships

First and foremost, democratic reform and economic reform are two sides of the same coin. Both involve the redistribution of power within the country. In Bangladesh, as in many other countries, the line between business and politics can often be hard to distinguish. The good news is that this does not necessarily mean twice the work. The efforts in economic reform and strengthening institutions of democracy should have a strong and mutually supportive relationship. While the new democracy SO, with a common theme of strengthening civil society, is just beginning, the entire USAID program is grounded in a civil society approach to development. The community-based open water management program, the strong links between the food security program and local government development, the decentralized, NGO-based approach to population and health, and the emphasis on small and microenterprises, all contribute to strengthening private and community initiative and responsibility. The USAID/Bangladesh program is in fact totally administered by NGOs and US partners.

E.4 Looking Ahead

Bangladesh has a long way to go before its institutions of democracy, governance, human rights and civil society are effective in meeting the needs of its people. While the donor community will only have a peripheral role in this transition, the United States, among all donor countries, has the most to offer and has most directly declared its support for democracy, reaffirmed by President Clinton's recent visit to Dhaka. We see the modest commitment of funding for the new democracy SO as the beginning of a long-term commitment to supporting an open society in Bangladesh. While the focus on specific issues may change as international priorities shift, we believe the core commitment to democracy in Bangladesh must remain a fixed element of the strategy. It is important for economic reforms, for the quality of life for millions of Bangladesh citizens who would otherwise have no voice in their future, and for the struggling democracies of the world who are judging the resolve of the United States and countries like Bangladesh to stay the course.

F. IMPROVED PERFORMANCE OF THE ENERGY SECTOR (SO 7)

F.1 Sector Fit

The recently approved SO for Improved Performance of the Energy Sector is designed to increase the institutional capacity of key energy organizations in Bangladesh to make informed decisions in clean energy development; improve the enabling environment for power and natural gas development; and increase public support for energy sector reform. The selection of topics within the sector was not difficult, as the deregulation process is by far the most critical action required to allow a major overhaul and influx of private sector financing for the energy and gas sectors.

Active donors in energy reform are the World Bank, the ADB, and CIDA (Canada). Japan OECF and Germany are also providing funds for system development, including rural electrification and expansion of generation and transmission. At first the two large multilaterals questioned the need for USAID to join on energy reform. This stage quickly passed as the quick-response, flexible USAID program developed a lead role in working with the GOB to strengthen their understanding of reform programs which had been demanded by the multilaterals for over a decade. Recent breakthroughs in power sector strategy development, the spin off of transmission lines, and heightened dialogue on gas exports, are major steps forward.

The initiation of the SARI regional energy program has also been timely, and demonstrated a very good fit. A recent regional energy event jointly sponsored by TDA, USAID and the US Department of Energy served to highlight the mutual interests and potential in the region, and the need to begin regional discussions based on facts, costs and benefits rather than just political posturing. We are hopeful that SARI will be a great start not only for energy, but for a wide range of regional issues which will benefit from open doors and initial successes of the energy program.

F.2 USAID/USG priorities

Efficient development of Bangladesh's energy resources is critical for its economic development. Furthermore, if large exports of natural gas are forthcoming, the GOB's budget and foreign exchange coffers would be significantly strengthened. Secretary Richardson of the USDOE targeted regional energy development, and Bangladesh gas development, as an international priority before USAID initiated its new SO. The Bureau support for the SARI energy program confirms this judgment. The targeted reduction of greenhouse gas emissions under this SO is a further compelling reason this program is an appropriate inclusion in the portfolio. Although Bangladesh is not a major source of carbon and other emissions, the possibility of gas exports to India opens a significant window for replacing high emission coal burning with clean natural gas. USAID believes this program will continue to be a high priority USG undertaking for the duration of this strategy.

F.3 Cross-Sector Relationships

Successful deregulation and development of the energy sector should have a very positive impact on virtually all aspects of life in Bangladesh. Employment generation in the formal and informal sectors has been constrained significantly by the lack of power and the high cost of alternative energy sources. Even without new enterprises developing, employment opportunities could increase almost 40 percent with reliable power supply. Availability of additional power has also hampered the expansion of rural electrification. As power becomes available, this program will play a lead role in encouraging off-farm employment in rural towns. Reducing the flow of migrants to Dhaka and other major cities is a very high priority for the future. Sector reform and natural gas development could eliminate the large budget drain of subsidizing the present inefficient power system, and generate a major new source of foreign exchange and local profits. This in turn will allow the GOB to expand social services, especially health and education.

F.4 Looking Ahead

As noted above, we believe the clean energy program will remain a top priority over the ten-year strategy period. We should anticipate, however, a continual development of the agenda based on the pace of reform, development of the natural gas sector, and the willingness of the regional partners to work together. The SO and SARI have been purposely developed with the flexibility

needed to allow such adjustments. Barring a complete stalemate in the sector, we think USAID can play a continuing catalytic role in ensuring a level playing field for private sector energy development.

G. SOURCES OF DEVELOPMENT INVESTMENT

Donor assistance comprises a significant portion of investment in Bangladesh's development. With its population of over 127 million people, current donor assistance amounts to about \$9 per capita per year in official development assistance (ODA). Among countries ranked "Low" on the U.N.'s 1999 Index of Human Development, Bangladesh receives one of the lowest levels of per capita aid.

For the Bangladesh Fiscal Years 1997 and 1998, external assistance averaged about 52% of the Government's Annual Development Budgets of approximately \$2.3 billion and \$2.4 billion, respectively. When investment from non-government sources is also taken into account, donor assistance is still a significant contributor to investment in Bangladesh. Gross Domestic Investment (GDI) as a percentage of Gross Domestic Product (GDP) was 22.2% in FY 1999. One-third of this investment (6.7% of GDP) was made by the public sector.

Bangladesh has liberal trade and foreign investment policies, and reforms have opened up some areas such as garment manufacture, frozen food export, and software to private entrepreneurs. As a result, private investment has steadily increased from 5.8% of GDP per year in 1991, to the FY 1999 level of 22.2% GDP. Overall, however, the level of investment is still too low to achieve the levels of growth required for Bangladesh to lift itself out of poverty. This particularly reflects the fact that the private sector does not yet play a sufficiently large role in investment.

Foreign direct investment (FDI) has recently increased, but is still low, and the Central Bank indicates that the increase is due almost entirely to investments in the natural gas sector. For GOB FY 1997, FDI inflows were \$16.0 million. In 1998, with gas exploration activities coming on stream, FDI jumped to \$249 million in 1998, and stayed at \$198 million in 1999. A weak capital market has contributed to negative numbers for portfolio investment for three of the past four years. Disinvestment was -\$132 million in FY 1997, and -\$6 million in FY 1999.

The Government of Bangladesh has steadily increased its share of the Development Budget since 1990, when this was 100% financed by external assistance. The GOB plans to continue to increase this in both absolute terms, and as a share of the overall amount. Nevertheless, the need for high levels of external assistance will remain for some time to help support the rate of growth required to reduce poverty. GOB development budget projections anticipate ODA will continue to increase slightly, rising from \$1.7 billion in GOB FY 1997, to \$2.3 billion in FY 2002. Areas slated for substantial increases in public investment include rural development, transport, physical planning/housing, education, health, and communications.

Coordination among the numerous donor entities in Bangladesh is good, with the World Bank taking the lead. There is consistency and mutual reinforcement among the donors' strategies and programs, and a shared understanding of the need to focus on poverty reduction as a common objective. Although some donors are not members of the Local Consultative Group for aid coordination, their contribution is a small portion of external assistance to Bangladesh. Donors such as China, South Korea, Saudi Arabia and OPEC, provided about 7% of assistance outlays for GOB FY 1998.

The Bank, the ADB, and the Japanese, with their very substantial resources, have made infrastructure and industrial growth/economic reform the centerpieces of their portfolios. Their programs also include direct poverty reduction programs, including education and health. The Bank's Country Assistance Strategy was approved in 1998, and reflects its mission which is "to help Bangladesh reduce poverty by promoting rapid, job-creating economic growth, and interventions that directly assist the poor." Strategic priorities for Bank programs are improving macroeconomic management, promoting a competitive private sector, promoting better public sector management, accelerating agricultural growth and rural development, and promoting faster and more equitable human development. Programs include an emphasis on institutional development. Target institutions include the Bangladesh Bank, the Privatization Board, the Law Reform Commission, line ministries in health and family planning, and the judiciary; and new public institutions such as utility regulators, financial courts, and a social fund to support NGO and community programs.

The Asia Development Bank's (ADB) strategy, which was approved in late 1999, focuses on poverty reduction through activities in four areas. ADB promotes private sector-led economic growth with programs to improve infrastructure (energy, ports, rail and road links), and improve public administrative capacity in such areas as land administration and national accounts, local government development, and capital markets. ADB assists the rural and urban poor through investments in local infrastructure, water resources development, crop/agribusiness credit, and expanding and upgrading microfinance institutions. It promotes human development with interventions in both basic and secondary education, and urban primary health. ADB also focuses on urban environmental issues. Under the new strategy, ADB will look for ways to build its partnership with NGOs.

Japan's strategy is "poverty eradication ...by accelerating economic growth under private sector initiative, and simultaneously ensuring an adequate supply of basic needs." Priorities for Japanese assistance are agricultural and rural development and enhancement of agricultural productivity; improvement in basic human needs, health and medical services; creation of the base for promoting investment and exports; and disaster relief. In implementing activities, Japan emphasizes human resource development, institution building, and environmental impact. For 1994-1998, grants comprised about one-third of Japan's assistance, with loans going for major infrastructure and credit operations, and grants for activities ranging from minor infrastructure to food aid, debt relief, and various health sector activities. Japan, like most other donors in Bangladesh, works with the NGO community, particularly in carrying out social sector activities.

Other important donors include the European Community, the U.S., the U.K. (DFID), Germany, the Netherlands, and the Scandinavian countries. The aim of DFID's 1998 strategy is to contribute to poverty elimination both by direct interventions on poverty, and by supporting more rapid but broad-based, pro-poor economic growth. Direct poverty interventions include activities to improve livelihoods, plus education, health/family planning, and water and sanitation. Economic growth activities, above and beyond those focussed directly on improving livelihoods, may include projects to strengthen economic reform or institutions, e.g. fiscal management, financial sector reform, privatization, and promotion of investment and trade. In addition the U.K. program strategy emphasizes governance, institution building, and human rights.

The EC's strategy, completed in 1993, emphasizes poverty alleviation through increasing incomes and food security for the poor; improving their access to health services, particularly for women and children; and improving their access to education. EC's focus is on the very poor and on human resources development, with an eye to promoting the environment and entrepreneurship. Vocational and literacy training, and improving rural investment and employment opportunities

are important areas for the EC. Like USAID, the EC provides substantial food aid, and has developed a policy whereby food aid is integrated into, and supports a comprehensive development program.

PART IV: RESOURCE REQUIREMENTS

This section will look at the present and future USAID resource requirements over the next ten years, and how that might affect program development and implementation. We have attempted to extrapolate possible developments in OE and OYB funding, as well as overseas presence policies. Clearly, no one has a crystal ball, but we think the assessment is prudent based on information now available to the Mission.

A. FUNDING

Funding for FY 2000 for the six strategic objectives of the present strategy is approximately \$48 million in DA/CS, and \$40 million in Title II food assistance. The recent addition of 60,000 to 85,000 MT of soy oil under the 416b program will likely be monetized and provide additional local currency resources for local government, agriculture development, and perhaps child labor programs. The division of DA/CS between sectors this year is 77% for PHN, 19% for economic growth and environment, and 4% for DG. ANE Bureau support for increased economic growth, energy, and environment funding has been very helpful. USAID has been successful in garnering State Department support for targeted allocation of regional ESF funding for priority parliament and human rights activities under DG. The Mission has also taken decisive action to allocate various local currency food accounts to high priority activities supporting the SOs. With food and ESF assistance taken into account (ex regional), the total mix of funding is 41% for PHN, 51% for the four economic growth, food security, energy and environment SOs, and 8% for DG.

The Mission is managing its portfolio in a prudent manner, and as of the writing of this strategy maintains a pipeline of 11.2 months of forward funding, well within Agency mandates. There are no indications of pressures which would build the pipeline in the future. In fact the increasingly tight pipeline regulations, and our downward trend, makes it even more important to maintain a reliable new flow of OYB funding. Presently the most scarce resources are the DA democracy funding of \$2 million per year, and the economic growth funding for enterprise development. We have designed the new democracy SO to be able to withstand pressures on the DA account, although the program could not withstand a total cutoff of DA funding. We continue to stress the need for the Agency to make its case for additional total resources in democracy. It is difficult to comprehend why a \$2 million democracy budget for a country of 127 million is breaking the budget. The small business work under the small and agribusiness SO is most dependent on economic growth funding.

The possible shifts over the ten-year strategy period in program priorities could entail an increased emphasis on economic reform, and a request to add primary education as an objective. Both would likely require additional funding. The Mission recognizes the need to demonstrate a solid return on the development investments in Bangladesh, and is fully committed to ensuring the program now in progress will meet expectations. We consider \$48 million in annual DA/CS funding to be the floor for the program, with \$55-60 million in annual DA/CS being a more optimal allocation for maximizing results under the present SO structure.

We assume the five year horizon for Title II funding of approximately \$40 million equivalent per year is relatively safe. Although ad hoc allocations of Title I and 416b are not predictable, we

now have a sufficient backlog of approved allocations that we are able to judge a five-year horizon for those two accounts. This includes agreements signed just before President Clinton visited Bangladesh. The likelihood of at least one more year of excess commodity availability over the next ten years is very good, which would allow the Mission to extend local currency initiatives beyond the first five years. To its credit, the GOB is one of the best development partners in the world with respect to its willingness to program local currencies in a mutually beneficial manner.

The Mission annually does a threshold analysis to determine the possible consequences of a major shortfall in funding. Possible funding shortfalls over the next ten years are of course a possibility, but it seems best to deal with such realities as the parameters unfold rather than in this document.

B. STAFFING/PROGRAM MANAGEMENT

The present USAID/Bangladesh Mission consists of 17 USDH, 5 USPSCs/TAACs, and 70 FSNs. The Mission structure has a PHN team managing one large SO, an EGAD (economic growth and agriculture development) team with four SO teams under it, and a Responsive Governance team with one DG SO. The FM office is largely dispersed among SO teams, with a small core FM staff under the Controller. The regional contracting office manages Bangladesh and Nepal programs; and the regional legal advisor covers Bangladesh, India and Nepal. The director's office, EXO, and program office round out the Mission.

USAID/Bangladesh maintains a very economical staff to budget ratio. The Mission has routinely taken available opportunities to readjust staff mix to meet the demands of our new program while maintaining a lean OE posture. Having reviewed the report, "America's Overseas Presence in the 21st Century", we believe the Mission is ahead of schedule in meeting the needs and resource mix required for the future. Having been one of the most successful reengineering posts, our team structure is very effective, and our ability to cope with change is excellent. The Mission anticipates continued OE and security pressures that will tend to reduce USDH levels over time.

The existing program that covers the first five years of the strategy takes into account probable staffing adjustments. The FSN and program funded PSC staff are increasingly taking on program management, as is the case around the world. USAID/Bangladesh is blessed with an outstanding FSN staff that has continually shown itself up to the challenge as their responsibilities expand. The development partners in Bangladesh, many of whom are now longstanding local NGO counterparts, also provide a substantial source of management expertise and program continuity.

When the next generation of SOs is designed around the midpoint of this strategy, the evolving staffing parameters will be taken into account. The Mission notes that six strategic objectives perhaps sounds like a big management load, but it should be understood that the present program actually represents fewer management units than under the recent program of three SOs. By breaking down component parts of the umbrella Food Security SO, we have been able to phase out lower priority programs and concentrate our attention on the most promising activities. The revised democracy SO also is designed to reduce substantially the number of contract and grant actions, and the overall management load in this sector. The Mission believes that many of the current SOs will prove themselves worthy of continuation well beyond the 2005 timeframe, with interim opportunities to adjust the results framework taking into account the evolving sector environments.